

SOUTH HAVEN HOUSING COMMISSION
SOUTH HAVEN, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>South Haven Housing Commission</i>		County
Audit Date <i>6/24/04</i>	Opinion Date <i>11/16/04</i>	Date Accountant Report Submitted to State: <i>11/28/04</i>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. Eighth Street</i>		City <i>South Haven City</i>	State <i>MI</i> ZIP <i>49686</i>
Accountant Signature <i>Barry E. Gaudette, CPA</i>			

SOUTH HAVEN HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
South Haven Housing Commission
South Haven, Michigan

We have audited the accompanying statements of net assets of the South Haven Housing Commission, Michigan (a component unit of the City of South Haven) as of June 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Haven Housing Commission, Michigan, as of June 30, 2004, and the results of its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2004 on our consideration of South Haven Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

South Haven Housing Commission
Independent Auditor's Report
Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bary E. Tardiff, CPA, PC

November 16, 2004

SOUTH HAVEN HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
June 30, 2004
=====

The South Haven Housing Commission, created in 1967, by the City of South Haven provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for South Haven Housing Commission consists of two programs. The first is owned housing, consisting of 128 units of public housing and the second is the capital funding program. South Haven Housing Commission had total revenues of \$782,897 that includes \$345,288 in rental payments and \$331,468 in federal assistance. Total operating expenses were \$865,498, that includes \$223,241 in administrative expenses, \$236,520 in ordinary maintenance expenses, and \$279,714 in depreciation expense.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,885,541. The Housing Commission's total net assets decreased by \$82,737 from the prior year. The decrease is attributable in part to depreciation expense.

Total assets of the Housing Commission were \$4,032,974 including \$524,207 of current assets and \$3,508,767 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$144,521.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

SOUTH HAVEN HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2004
=====

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 524,207	\$ 490,735	\$ 33,472
Property and equipment	<u>3,508,767</u>	<u>3,592,466</u>	<u>(83,699)</u>
Total assets	<u>\$4,032,974</u>	<u>\$4,083,201</u>	<u>\$ (50,227)</u>
Current liabilities	\$ 144,521	\$ 103,728	\$ 40,793
Noncurrent liabilities	<u>2,912</u>	<u>11,195</u>	<u>(8,283)</u>
Total liabilities	<u>147,433</u>	<u>114,923</u>	<u>32,510</u>
Net assets:			
Invested in capital assets	3,508,767	2,971,317	537,450
Unrestricted net assets	<u>376,774</u>	<u>996,961</u>	<u>(620,187)</u>
Total net assets	<u>3,885,541</u>	<u>3,968,278</u>	<u>(82,737)</u>
Total liabilities and net assets	<u>\$4,032,974</u>	<u>\$4,083,201</u>	<u>\$ (50,227)</u>

SOUTH HAVEN HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2004
=====

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 345,288	\$ 357,215	\$(11,927)
Nondwelling rent	<u>750</u>	<u>676</u>	<u>74</u>
Total operating revenues	<u>346,038</u>	<u>357,891</u>	<u>(11,853)</u>
Operating expenses:			
Administration	223,241	211,087	12,154
Tenant services	3,342	2,967	375
Utilities	55,382	52,075	3,307
Ordinary maintenance and operation	236,520	185,620	50,900
General expenses	66,699	86,386	(19,687)
Extraordinary maintenance	600	6,309	(5,709)
Depreciation	<u>279,714</u>	<u>274,165</u>	<u>5,549</u>
Total operating expenses	<u>865,498</u>	<u>818,609</u>	<u>46,889</u>
Operating income(loss)	<u>(519,460)</u>	<u>(460,718)</u>	<u>(58,742)</u>
Non-operating revenue (expense):			
Interest income	9,732	11,580	(1,848)
Operating grants	140,174	171,767	(31,593)
Capital grants	191,294	57,807	133,487
Other income	29,907	30,366	(459)
Gain on sale of assets	<u>65,752</u>	<u>65,752</u>	<u>65,752</u>
Total nonoperating revenue (expense)	<u>436,859</u>	<u>271,520</u>	<u>165,339</u>
Net income(loss)	<u>(82,601)</u>	<u>(189,198)</u>	<u>106,597</u>
Prior period adjustments	<u>(136)</u>	<u>(10,836)</u>	<u>10,700</u>
Change in Net Assets	<u><u>\$(82,737)</u></u>	<u><u>\$(200,034)</u></u>	<u><u>\$ 117,297</u></u>

FINANCIAL STATEMENTS

SOUTH HAVEN HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
June 30, 2004
=====

ASSETS

Current Assets:

Cash	\$ 151,660
Accounts receivable-HUD other projects	38,421
Accounts receivable-miscellaneous	9,349
Accounts receivable-tenants	508
Accrued interest receivable	199
Investments-unrestricted	267,334
Prepaid expenses	23,160
Due from other programs	<u>33,576</u>

Total Current Assets	<u>524,207</u>
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Property, Plant, and Equipment:

Land	244,488
Buildings	5,972,498
Equipment	53,774
Building improvements	477,486
Construction in progress	<u>124,429</u>

Less: accumulated depreciation	<u>6,872,675</u> <u>(3,363,908)</u>
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Net Property, Plant, and Equipment	<u>3,508,767</u>
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Total Assets	<u>\$ 4,032,974</u>
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See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2004
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LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 38,980
Tenant security deposit liability	36,122
Accrued expenses	32,802
Deferred revenues	2,801
Other current liabilities	240
Due to other programs	<u>33,576</u>

Total Current Liabilities 144,521

Noncurrent Liabilities:

Accrued compensated absences	<u>2,912</u>
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Total Liabilities 147,433

Net Assets:

Invested in capital assets	3,508,767
Unrestricted net assets	<u>376,774</u>

Total Net Assets 3,885,541

Total Liabilities and Net Assets \$ 4,032,974

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION
**COMBINED STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS**
 Year Ended June 30, 2004
 =====

OPERATING REVENUES:

Dwelling rent	\$ 345,288
Non-dwelling rent	<u>750</u>
Total operating revenues	<u>346,038</u>

OPERATING EXPENSES:

Administration	223,241
Tenant services	3,342
Utilities	55,382
Ordinary maintenance and operation	236,520
General expenses	66,699
Extraordinary maintenance	600
Depreciation	<u>279,714</u>
Total operating expenses	<u>865,498</u>

Operating income(loss)	<u>(519,460)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Investment interest income	9,732
Other income	29,907
Gain/loss on sale of fixed assets	65,752
Operating grants	140,174
Capital grants	<u>191,294</u>

Total nonoperating revenues(expenses)	<u>436,859</u>
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Net income(loss)	(82,601)
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Prior period adjustments	(136)
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Net assets, beginning	<u>3,968,278</u>
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Net assets, ending	<u>\$ 3,885,541</u>
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See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
 Year Ended June 30, 2004
 =====

Cash flows from operating activities:

Operating(loss)	\$(519,460)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	279,713
Adjustments	(136)
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable	484
Due from other funds	(30,197)
Prepaid expenses	(4,343)
Increase (decrease) in liabilities:	
Accounts payable-operations	(2,975)
Accrued wage/payroll taxes	3,483
Accrued compensated absences	3,512
Accounts payable-PILOT	(1,549)
Tenant security deposits	(832)
Deferred revenues	434
Other current liabilities	240
Due to other funds	<u>30,197</u>
Net cash (used in) operating activities	<u>(241,429)</u>

**Cash flows from noncapital
financing activities:**

Operating grants	109,868
Other revenue	<u>20,558</u>
Net cash provided by noncapital financing activities	<u>130,426</u>

**Cash flows from capital and related financing
activities:**

Capital grants	191,294
Gain/loss on sale of fixed assets	65,752
Payments for capital acquisitions	<u>(196,015)</u>
Net cash provided by capital and related financing activities	<u>61,031</u>

SOUTH HAVEN HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2004
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Cash flows from investing activities:

Certificates of deposits maturing	21,255
Receipts of interest and dividends	<u>9,801</u>

Net cash provided by investing activities	<u>31,056</u>
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Net increase(decrease) in cash	(18,916)
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Cash, beginning	<u>170,576</u>
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Cash, ending	<u>\$ 151,660</u>
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Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 151,660
Restricted cash	<u> </u>

Cash and cash equivalents per balance sheet	<u>\$ 151,660</u>
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See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the South Haven Housing Commission. The South Haven Housing Commission is a component unit of the City of South Haven, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of South Haven on September 20, 1967, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the South Haven Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-8046, the Housing Commission constructed, maintains and operates 128 units of subsidized housing in the City of South Haven, Michigan.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (continued)

other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unretricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of South Haven has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD.

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (continued)

Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings - dwellings	40 years
Buildings - nondwellings	20 years
Equipment - dwellings	7 years
Equipment - nondwellings	5 - 7 years
Leasehold improvements	5 - 40 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unstricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, an employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave prorated to the date of separation. Initial probationary employees and temporary employees shall not receive pay for vacation time accumulated if separation occurs during the first six (6) months of employment.
- * Sick leave, an employee may accumulate a maximum of one hundred fifty days (150). No sick leave shall accumulate beyond one hundred fifty (150) days. An employee is eligible to receive fifty percent (50%) of his/her accumulated sick leave upon death or retirement; payment will be made at the employee's most current rate of pay.
- * Personal leave, there is not a policy for personal leave.

The amount of accumulated benefits at June 30, 2004, was \$21,396, and is recorded as a liability in the applicable funds.

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 2: CASH AND INVESTMENTS (continued)

during the year, the Housing Commission's deposits may have been higher than the June 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	<u>Carrying Value</u>
Berrien Teachers Credit Union	\$ 83,768	\$	\$	\$ 83,768	\$ 83,767
Fifth Third Bank	87,915			87,915	87,915
Chemical Bank					
Shoreline	60,074			60,074	55,807
National City	95,809			95,809	95,809
West Michigan Savings Bank	25,000			25,000	25,000
Consumers Credit Union	70,596			70,596	70,596
Total Deposits	<u>\$423,162</u>	<u>\$</u>	<u>\$</u>	<u>\$ 423,162</u>	418,894
Change fund					50
Petty cash					50
					<u>\$ 418,994</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					\$ 151,660
Investments					267,334
Restricted cash					-
Total					<u>\$ 418,994</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2004, the receivables were \$508 with \$-0- estimated as uncollectible. Bad debt expense was \$1,716.

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
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NOTE 3: RECEIVABLES AND PAYABLES (continued)

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at June 30, 2004 were as follows:

Low Rent Program	\$	-
Capital Fund Program		<u>38,421</u>
Total		<u>\$ 38,421</u>

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	<u>\$ 33,576</u>	Capital Fund Program	<u>\$ 33,576</u>

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$ 12,000</u>

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u> <u>06/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>06/30/04</u>
Low Rent Program			
Land	\$ 244,488	\$	\$ 244,488
Buildings	5,909,795	30,209	5,879,586
Furniture, equip. & machinery - administration	54,769	4,594	50,175
Building improvements	<u>404,758</u>		<u>404,758</u>
	6,613,810	<u>\$</u>	6,579,007
Less accumulated depreciation	<u>(3,123,719)</u>	<u>\$ (273,048)</u>	<u>(3,357,243)</u>
Total	<u>\$3,490,091</u>		<u>\$3,221,764</u>

Capital Fund Program

	<u>Balance</u> <u>06/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>06/30/04</u>
Buildings	\$	\$ 92,912	\$ 92,912
Furniture, equip. & machinery - administration		3,599	3,599
Building improvements		72,728	72,728
Construction in progress	<u>102,375</u>	<u>22,054</u>	<u>124,429</u>
	102,375	<u>\$ 191,293</u>	293,668
Less accumulated depreciation	<u></u>	<u>\$ (6,665)</u>	<u>(6,665)</u>
Total	<u>\$ 102,375</u>		<u>\$ 287,003</u>

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 2,971,317
Adjustment	<u>250,447</u>
Balance, ending	<u>\$ 3,221,764</u>

NOTE 6: POST EMPLOYMENT BENEFITS

The Housing Commission participates in the City of South Havens' pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2003, the date of the last completed actuarial evaluation, the City's Department Heads category (the Housing Commission is included) termination liability for retirement benefits is \$3,804,065 (employer and employee combined). Valuation assets available to meet this obligation were \$4,848,134. The Department Heads (which includes the Housing Commission) employees contributed \$44,451 and the employer did not have to contribute during the calendar year 2003. The City's Department Heads (which includes the Housing Commission) has twenty nine(29) active members, one(1) vested former member, and twelve(12) retirees and beneficiaries. There is an overfund balance of \$1,317,905 as of December 31, 2003. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual plan.

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

SOUTH HAVEN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended June 30, 2004, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Operating revenue	\$ 346,038	\$
Operating expenses	829,351	36,147
Operating(loss)	(483,313)	(36,147)
Depreciation	273,048	6,666
Operating grants	98,693	41,481
Capital grants		191,294
Operating transfers	12,000	(12,000)
Net income(loss)	(267,229)	184,628
Plant, property, and equipment:		
Additions		191,293
Deletions	34,803	
Working capital	379,686	
Total assets	3,707,550	325,424
Change in net assets	(267,365)	184,628
Beginning net assets	3,865,903	102,375
Ending net assets	3,598,538	287,003

**NOTE 10: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND
CORRECTION OF ERRORS**

Low Rent Program

Correct prior year accounts receivable - HUD	\$(235)
Correct prior year accounts receivable - miscellaneous	<u>99</u>
	<u><u>\$(136)</u></u>

SUPPLEMENTARY INFORMATION

SOUTH HAVEN HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 June 30, 2004

=====

C-8046	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 151,660	\$
Accounts receivable-HUD other projects		38,421
Accounts receivable-miscellaneous	9,349	
Accounts receivable-tenant	508	
Accrued interest receivable	199	
Investments-unrestricted	267,334	
Prepaid expenses	23,160	
Due from other programs	<u>33,576</u>	
Total current assets	<u>485,786</u>	<u>38,421</u>

Property, plant, and equipment:

Land	244,488	
Buildings	5,879,586	92,912
Equipment	50,175	3,599
Building improvements	404,758	72,728
Construction in progress		<u>124,429</u>
	<u>6,579,007</u>	<u>293,668</u>
Less accumulated depreciation	<u>(3,357,243)</u>	<u>(6,665)</u>

Net property, plant and equipment

Total Assets

<u>3,221,764</u>	<u>287,003</u>
<u>\$3,707,550</u>	<u>\$ 325,424</u>

Totals

\$ 151,660

38,421

9,349

508

199

267,334

23,160

33,576

524,207

244,488

5,972,498

53,774

477,486

124,429

6,872,675

(3,363,908)

3,508,767

\$ 4,032,974

SOUTH HAVEN HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 June 30, 2004

=====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 35,190	\$ 3,790
Tenant security deposit liability	36,122	
Accrued expenses	31,747	1,055
Deferred revenues	2,801	
Other current liabilities	240	
Due to other programs		<u>33,576</u>
Total current liabilities	<u>106,100</u>	<u>38,421</u>
Noncurrent liabilities:		
Accrued compensated absences	<u>2,912</u>	
Total noncurrent liabilities	<u>2,912</u>	
Total liabilities	<u>109,012</u>	<u>38,421</u>
Net assets:		
Invested in capital assets	3,221,764	287,003
Unrestricted net assets	<u>376,774</u>	
Total net assets	<u>3,598,538</u>	<u>287,003</u>
Total Liabilities and Net Assets	<u>\$3,707,550</u>	<u>\$ 325,424</u>

Totals

\$ 38,980
36,122
32,802
2,801
240
33,576

144,521

2,912

2,912

147,433

3,508,767
376,774

3,885,541

\$ 4,032,974

SOUTH HAVEN HOUSING COMMISSION
COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS

Year Ended June 30, 2004

=====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 345,288	\$
Nondwelling rent	<u>750</u>	<u></u>
Total operating revenues	<u>346,038</u>	<u></u>
OPERATING EXPENSES:		
Administration	218,693	4,548
Tenant services	3,342	
Utilities	55,382	
Ordinary maintenance and operation	211,587	24,933
General expenses	66,699	
Extraordinary maintenance	600	
Depreciation	<u>273,048</u>	<u>6,666</u>
Total operating expenses	<u>829,351</u>	<u>36,147</u>
Operating income(loss)	<u>(483,313)</u>	<u>(36,147)</u>
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	9,732	
Other income	29,907	
Gain/loss on sale of fixed assets	65,752	
Operating grants	98,693	41,481
Capital grants		191,294
Operating transfers in (out)	<u>12,000</u>	<u>(12,000)</u>
Total nonoperating revenues (expenses)	<u>216,084</u>	<u>220,775</u>
Net income(loss)	<u>(267,229)</u>	<u>184,628</u>
Prior period adjustments, equity transfers and correction of errors	<u>(136)</u>	
Net assets, beginning	<u>3,865,903</u>	<u>102,375</u>
Net assets, ending	<u>\$3,598,538</u>	<u>\$287,003</u>

Totals

\$ 345,288
750

346,038

223,241
3,342
55,382
236,520
66,699
600
279,714

865,498

(519,460)

9,732
29,907
65,752
140,174
191,294

436,859

(82,601)

(136)

3,968,278

\$ 3,885,541

SOUTH HAVEN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended June 30, 2004

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Operating(loss)	\$(483,313)	\$(36,147)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	273,048	6,665
Adjustments	(136)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	484	
Due from other funds	(30,197)	
Prepaid expenses	(4,343)	
Increase (decrease) in liabilities:		
Accounts payable-operations	(3,042)	67
Accrued wage/payroll taxes	3,205	278
Accrued compensated absences	3,512	
Accounts payable-PILOT	(1,549)	
Tenant security deposits	(832)	
Deferred revenues	434	
Other current liabilities	240	
Due to other funds	<u> </u>	<u>30,197</u>
Net cash provided by (used in) operating activities	<u>(242,489)</u>	<u>1,060</u>
Cash flows from noncapital financing activities:		
Operating grants	98,928	10,940
Operating transfers in (out)	12,000	(12,000)
Other revenue	<u>20,558</u>	<u> </u>
Net cash provided by(used in) noncapital financing activities	<u>131,486</u>	<u>(1,060)</u>
Cash flows from capital and related financing activities:		
Capital grants		191,294
Gain/loss on sale of fixed assets	65,752	
Payments for capital acquisitions	<u>(4,721)</u>	<u>(191,294)</u>
Net cash provided by capital and related financing activities	<u>61,031</u>	<u> </u>

Totals
\$(519,460)

279,713
(136)

484
(30,197)
(4,343)

(2,975)
3,483
3,512
(1,549)
(832)
434
240
30,197

(241,429)

109,868
20,558

130,426

191,294
65,752
(196,015)

61,031

SOUTH HAVEN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2004
=====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from investing activities:		
Certificates of deposits maturing	21,255	
Receipts of interest and dividends	<u>9,801</u>	
Net cash provided by investing activities	<u>31,056</u>	
Net increase(decrease) in cash	(18,916)	
Cash, beginning	<u>170,576</u>	
Cash, ending	<u>\$ 151,660</u>	<u>\$</u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 151,660	\$
Restricted cash	<u></u>	<u></u>
Cash and cash equivalents per balance sheet	<u>\$ 151,660</u>	<u>\$</u>

<u>Totals</u>	
21,255	
<u>9,801</u>	
31,056	
(18,916)	
<u>170,576</u>	
<u>\$ 151,660</u>	

\$ 151,660

<u>\$ 151,660</u>

SOUTH HAVEN HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
 Year Ended June 30, 2004
 =====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 98,693
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>232,775</u>
	Total		<u>\$ 331,468</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
 accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

SOUTH HAVEN HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2004

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 115,538	\$
114	Cash-tenant security deposits	<u>36,122</u>	
100	Total cash	<u>151,660</u>	
	Receivables:		
122	A/R-HUD other projects		38,421
125	A/R-miscellaneous	9,349	
126	A/R-tenants-dwelling rents	508	
129	Accrued interest receivable	<u>199</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>10,056</u>	<u>38,421</u>
	Current Investments:		
131	Investments-unrestricted	<u>267,334</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	23,160	
144	Interprogram due from	<u>33,576</u>	
	Total other current assets	<u>56,736</u>	
150	Total current assets	<u>485,786</u>	<u>38,421</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	244,488	
162	Buildings	5,879,586	92,912
164	Furn, equip & mach-admin.	50,175	3,599
165	Building improvements	404,758	72,728
166	Accumulated depreciation	(3,357,243)	(6,665)
167	Construction in progress		<u>124,429</u>
160	Total fixed assets, net of accumulated depreciation	<u>3,221,764</u>	<u>287,003</u>
180	Total noncurrent assets	<u>3,221,764</u>	<u>287,003</u>
190	Total Assets	<u>\$3,707,550</u>	<u>\$ 325,424</u>

Totals

\$ 115,538
36,122

151,660

38,421
9,349
508
199

48,477

267,334

23,160
33,576

56,736

524,207

244,488
5,972,498
53,774
477,486
(3,363,908)
124,429

3,508,767

3,508,767

\$ 4,032,974

SOUTH HAVEN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 5,936	\$ 3,790
321	Accrued wage/payroll taxes payable	13,263	1,055
322	Accrued compensated absences	18,484	
333	Accounts payable-other government	29,254	
341	Tenant security deposits	36,122	
342	Deferred revenues	2,801	
345	Other current liabilities	240	
347	Interprogram due to		<u>33,576</u>
310	Total current liabilities	<u>106,100</u>	<u>38,421</u>
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>2,912</u>	
350	Total noncurrent liabilities	<u>2,912</u>	
300	Total liabilities	<u>109,012</u>	<u>38,421</u>
	Equity:		
508.1	Invested in capital assets	<u>3,221,764</u>	<u>287,003</u>
508	Total equity	3,221,764	287,003
	Net Assets:		
512.1	Unrestricted net assets	<u>376,774</u>	
513	Total net assets	<u>3,598,538</u>	<u>287,003</u>
600	Total Liabilities and Equity/Net Assets	<u>\$3,707,550</u>	<u>\$ 325,424</u>

Totals

\$ 9,726

14,318

18,484

29,254

36,122

2,801

240

33,576

144,521

2,912

2,912

147,433

3,508,767

3,508,767

376,774

3,885,541

\$ 4,032,974

SOUTH HAVEN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended June 30, 2004

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 345,288	\$
704	Tenant revenue-other	<u>750</u>	
705	Total tenant revenue	346,038	
706	HUD PHA grants	98,693	41,481
706.1	Capital grants		191,294
711	Investment income-unrestricted	9,732	
715	Other revenue	29,907	
716	Gain/loss on sale of fixed assets	<u>65,752</u>	
700	Total revenue	<u>550,122</u>	<u>232,775</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	144,556	
912	Auditing fees	2,000	
914	Compensated absences	3,513	
915	Employee benefit contributions-adm.	44,038	
916	Other operating-administrative	24,586	4,548
	Tenant Services:		
924	Tenant services-other	3,342	
	Utilities:		
931	Water	10,783	
932	Electricity	25,061	
933	Gas	19,538	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	101,711	
942	Ordinary maint & oper-mat'ls & other	20,583	24,933
943	Ordinary maint & oper-contract costs	54,692	
945	Employee benefit contributions- ordinary maintenance	34,601	
	General expenses:		
961	Insurance premiums	32,691	
962	Other general expenses	3,038	
963	Payments in lieu of taxes	29,254	
964	Bad debt-tenant rents	<u>1,716</u>	
969	Total operating expenses	<u>555,703</u>	<u>29,481</u>
970	Excess operating revenue over operating expenses	<u>(5,581)</u>	<u>203,294</u>

Totals

\$ 345,288
750

346,038

140,174

191,294

9,732

29,907

65,752

782,897

144,556

2,000

3,513

44,038

29,134

3,342

10,783

25,061

19,538

101,711

45,516

54,692

34,601

32,691

3,038

29,254

1,716

585,184

197,713

SOUTH HAVEN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2004

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	600	
974	Depreciation expense	<u>273,048</u>	<u>6,666</u>
	Total other expenses	<u>273,648</u>	<u>6,666</u>
900	Total expenses	<u>829,351</u>	<u>36,147</u>
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	(279,229)	196,628
	Other Financing Sources (Uses):		
1001	Operating transfers in (out)	<u>12,000</u>	<u>(12,000)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	(267,229)	184,628
1104	Prior period adjustments, equity transfers and correction of errors	(136)	
1103	Beginning Net Assets	<u>3,865,903</u>	<u>102,375</u>
	Ending Net Assets	<u>\$ 3,598,538</u>	<u>\$287,003</u>

Totals

600
279,714

280,314

865,498

(82,601)

(82,601)

(136)

3,968,278

\$ 3,885,541

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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Fax (231) 946-1377

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
South Haven Housing Commission
South Haven, Michigan

We have audited the financial statements of the South Haven Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standard
South Haven Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated November 16, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bany E. Landolt, CPA, PC

November 16, 2004

SOUTH HAVEN HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2004

SOUTH HAVEN HOUSING COMMISSION
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JUNE 30, 2004

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
South Haven Housing Commission

We have audited the financial statements of the South Haven Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated November 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing there were no audit adjusting journal entries necessary).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Bany E. Faudett, CPA, PC

November 16, 2004

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
South Haven Housing Commission

We have audited the financial statements of the South Haven Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated November 16, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

November 16, 2004

SOUTH HAVEN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

June 30, 2004

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Computer Backup

The Housing Commission does a daily backup of computer information, but does not store the information in a fire proof safe or off-site.

We recommend that the Housing Commission consider storing the daily backup of computer information in a location that is either off site or on site and fireproof.

Certificate of Deposits

The Housing Commission has several Certificate of Deposits, but there is not a policy in place that requires two signatures to start or cash in a Certificate of Deposit.

We recommend that the Housing Commission adopt a resolution that would require two signatures to open up a certificate of deposit or to cash in a certificate of deposit. This policy would provide another internal control for the safe guarding of assets.

Laundry Machine Cash Collections

The Housing Commission owns the washer and dryers that tenants use. About \$600 per month in coins is collected by one employee.

We recommend that the Housing Commission have two staff employees collect the coins from the laundry machines at the same time.

Tenant Deposits

The same employee usually collects, records and deposits the tenant rent payments and other types of deposits.

We recommend that the Housing Commission have one other employee be involved in this process. The additional employee could review the deposit ticket and then after the deposit ticket receipt is brought back, this employee should review that the deposit is the correct amount and also initial the deposit ticket receipt.

SOUTH HAVEN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
June 30, 2004
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Listing of Accounts Payable for the Board Meetings

Currently the Board at the monthly meetings receives a list of accounts payable for the month, but the check number is not listed.

We recommend that the corresponding check number be listed for all checks listed and also that voided checks be listed.

Invoices

Currently at the monthly Board meetings only the check listing is provided.

We recommend that the documentation that backs up the check listing be provided for the Commission board members if they wish to review. This will provide one more internal control for the proper disbursement of Housing Commission funds.

SOUTH HAVEN HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
June 30, 2004
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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no audit adjusting journal entries.